

Tax Information for Small Businesses

CONSTRUCTION - Office In The Home, IRC Section 280A

Must Meet All

Exclusive Use: Specific area of your home only for your trade or business.

Regular Use: Use the area on a continuing basis.

Trade or Business Use: Used in connection with a trade or business.

Must Meet One

- Principal place of business
- Meet and deal with clients or customers in the normal course of your trade
- A separate structure used in connection with your trade

Determine Business Percentage

- Divide the area used for business by the total area of the house
- Divide the number of rooms used for business by the total number of rooms in the house. Rooms have to be approximately equivalent in size

Other Considerations

- Partial Year Usage:
Only consider that portion of the year you actually start using your home for business.
- Deduction Limit:
Your business use of home expenses are limited to the tentative profit (net income before taking business use of home expenses).

Type of Expenses

- Direct:
All expenses for the business part of your home are fully deductible. (Example: Painting or repairs to the business area only)
- Indirect:
Expenses for running the entire home are deducted based on the business percentage. (Example: Insurance, utilities, and general home repairs)

CAUTION: Sale of Residence

If you sell a home that had a portion used for any period of time for business purposes, and, as a result, depreciation deductions were taken on earlier federal income tax returns, the amount of gain subject to the gain exclusion must be reduced by the total of the depreciation deductions.

Form 8829

Part I: Part of your Home Used for Business. Figures the business percentage to use for indirect expenses.

Part II: Figure Your Allowable Deduction. Figures the allowable deduction.

Part III: Depreciation of Your Home. Figures depreciation amount

Part IV: Carryover of Unallowable Expenses. Determines the amount that was not deducted due to tentative profit limitation.

Home-Based Business Tax Avoidance Schemes

- Transforming non-deductible personal living expenses into business expenses
- Paying your child a "deductible salary" for merely answering your phone or washing your car
- Deducting the cost of your child's education

Thank You!!!